

FEDERAL RESERVE SYSTEM

OP - 1385

AGENCY: Board of Governors of the Federal Reserve System.

Payment System Risk Policy; Daylight Overdraft Posting Rules

ACTION: Announcement

SUMMARY: As part of its Payment System Risk Policy, the Board is announcing posting rules for a new same-day automated clearing house (ACH) service. The Reserve Banks' FedACH SameDay service, which will include certain debit transactions, will be available only to customers who elect to participate.

EFFECTIVE DATE: August 2, 2010.

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SUPPLEMENTARY INFORMATION:

I. Background

The Reserve Banks will be offering an opt-in, same-day settlement service for certain ACH debit payments through the FedACH service effective August 2, 2010.¹ FedACH customers may opt-in to this service by completing a participation agreement. As part of the

¹ For additional information on the FedACH SameDay service, please contact your Federal Reserve Account Executive or visit www.frbsservices.org.

agreement, depository institutions may choose the extent of their participation: they may send only, receive only, or send and receive same-day debit items. This service will be limited to transactions arising from consumer checks converted to ACH and consumer debit transfers initiated over the Internet and phone.²

Institutions that choose to use this service should be aware of the posting times and associated settlement times established for same-day forward and return transfers, as these times could influence how participating institutions manage their Federal Reserve accounts, especially late in the day.³ When the Reserve Banks offer new financial services, the Board determines when the payments will post to an institution's Federal Reserve account so it may manage and appropriately fund its account.⁴ The following table outlines the transmission deadlines and associated posting times for the FedACH SameDay service.⁵

FedACH SameDay opt-in service	Transmission deadline to FedACH	Posting time
Forward same-day debit transfers	2:00 p.m.	5:00 p.m.
Return same-day debit transfers	4:30 p.m.	5:30 p.m.

In considering these transmission deadlines and posting times, the Board sought to provide receiving institutions with enough time to process same-day transactions. Depository institutions may send a same-day forward item to FedACH until 2:00 p.m. FedACH will process

² This service is limited to the origination of non-government debit payments and includes only Accounts Receivable Entry (ARC), Back Office Conversion Entry (BOC), Point-of-Purchase Entry (POP), Telephone-Initiated Entry (TEL), Represented Check Entry (RCK), and Internet-Initiated Entry (WEB).

³ The posting time is the time by which a transaction will be recorded for daylight overdraft purposes and reflected in an institution's daylight overdraft balance. Settlement for the transaction will occur approximately fifteen to thirty minutes before the associated posting time and will be reflected in the institution's account balance. Institutions may view their real-time account balance and daylight overdraft balance in Account Management Information (AMI), which is a service offered by the Reserve Banks.

⁴ Under the current posting times, government and commercial ACH credit transactions post at 8:30 a.m. Eastern Time and debit transactions post at 11:00 a.m. Eastern Time. ACH return transactions post at 5:00 p.m. Eastern Time.

⁵ All times associated with the deadlines and posting rules are Eastern Time.

these forward items and send them to the receiving institutions by approximately 4:00 p.m., and these items will settle the same day at 5:00 p.m. The Board also wanted to ensure that institutions have sufficient time to manage their Federal Reserve account if they receive a returned debit transfer late in the day. Depository institutions will have until 4:30 p.m. to return same-day debit items for same-day settlement.⁶ FedACH will process and send the returned items to the originating institutions by approximately 5:00 p.m., and these items will settle the same day at 5:30 p.m. The Board believes that because these processing and posting times provide institutions with information sufficiently in advance of the close of Fedwire, participants in the FedACH SameDay service will be able to react appropriately to any debit transfers they may receive in their Federal Reserve accounts.

The Board also considered the possibility of how extensions to the FedACH service may affect the FedACH SameDay service. Today, under certain circumstances, FedACH customers may request an extension to the transmission deadline of 2:00 p.m. for immediate-settlement transactions. Immediate-settlement transactions include ACH return items and check-truncation items. The posting time for these items is 5:00 p.m. While customers will not be able to request an extension to the FedACH SameDay service, the transmission deadline for this service may be minimally affected by extensions granted for the immediate-settlement transactions. If a customer is granted an extension, FedACH would extend both the transmission deadline to send immediate-settlement return payments and the transmission deadline to send same-day forward items past 2:00 p.m. While this extension would grant all FedACH customers more time to send these items, it would not delay the posting times as FedACH would absorb the extension by

⁶ Institutions have the option of returning same-day items by 4:30 p.m. for same-day return settlement at 5:30 p.m. If a same-day item is not returned by the same-day return deadline, institutions have until the generally applicable return deadline specified in the National Automated Clearing House Association (NACHA) rules to return items.

shortening its processing window. Depository institutions interested in learning more detailed information about the FedACH SameDay service should contact their local Reserve Bank or visit www.frb services.org.

II. Competitive Impact Analysis

The Board conducts a competitive impact analysis when it considers a change, such as introducing posting rules for a new service. Specifically, the Board determines whether there would be a direct and material adverse effect on the ability of other service providers to compete with the Federal Reserve due to differing legal powers or due to the Federal Reserve's dominant market position deriving from such legal differences.⁷ The Board believes that there are no adverse effects to other service providers resulting from the new posting rules. While FedACH is the only ACH operator that is currently offering a same-day service, if the other ACH operator elects to offer a same-day service, FedACH would support inter-operator transfers to enable customers to benefit from both operators' same-day service offerings.

III. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the new posting rules under the authority delegated to the Board by the Office of Management and Budget. No collections of information pursuant to the Paperwork Reduction Act are contained in these new posting rules.

IV. Federal Reserve Policy on Payment System Risk

The Federal Reserve Policy on Payment System Risk, Section II.A. under the subheading "Procedures for Measuring Daylight Overdrafts," is amended with changes as follows in *italics*.

⁷ Federal Reserve Regulatory Service, 7-145.2.

Procedures for Measuring Daylight Overdrafts⁸

Post at 5:00 p.m. Eastern Time:

+/- *FedACH SameDay service transactions.*

+ Treasury checks, postal money orders, and EZ-Clear savings bond redemptions in separately sorted deposits; these items must be deposited by 4:00 p.m. Eastern Time.

+ Local Federal Reserve Bank checks; these items must be presented before 3:00 p.m. Eastern Time.

+/- *Immediate-settlement ACH transactions*; these transactions include ACH return items and check-truncation items.

Post at 5:30 p.m. Eastern Time:

+/- *FedACH SameDay service return transactions.*

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By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Reserve Bank Operations and Payment Systems under delegated authority, June 16, 2010.

Jennifer J. Johnson (signed)
Jennifer J. Johnson,
Secretary of the Board.

⁸ These posting times do not affect the overdraft restrictions and overdraft-measurement provisions for nonbank banks established by the Competitive Equality Banking Act of 1987 and the Board's Regulation Y (12 CFR § 225.52).